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Industrial Development Board

Resumed fourteenth session

SUMMARY RECORD OF THE 9th MEETING

Held at the Vienna International Centre, Vienna,
on Tuesday, 31 October 1995, at 10 a.m.

President: Ms. OK (Turkey)

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The meeting was called to order at 11.30 a.m.

OPENING OF THE RESUMED FOURTEENTH SESSION

1. The **PRESIDENT** declared open the resumed fourteenth session of the Industrial Development Board.

2. The purpose of the resumption was to review the preliminary expenditure plans prepared by the Director-General, to adopt the programme and budgets for 1996-1997 for submission to the sixth session of the General Conference and to consider the use of unutilized balances with respect to the biennium 1992-1993.

3. She suggested that the sub-items be taken up simultaneously.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE:

(c) PROGRAMME AND BUDGETS, 1996-1997

(g) FINANCIAL SITUATION OF UNIDO

(continued) (IDB.14/9, IDB.14/2 and Corr.1, IDB.14/28, IDB.14/29, IDB.14/30)

4. **Mr. DE MARIA Y CAMPOS** (Director-General) said that the resumption of the Board session had been made necessary by the uncertainties surrounding the payment of assessed contributions in 1995 and during the 1996-1997 biennium, particularly by the major contributor, with possible consequences on the programme and budgets for 1996-1997. As requested, he was submitting preliminary expenditure plans, to reflect those uncertainties, an update of the financial situation of UNIDO as of 30 September 1995, in the light of which he hoped that the Board would be able to recommend to the sixth session of the General Conference the approval of the programme and budgets for 1996-1997; he had also provided information on the establishment of a separation indemnity reserve.

5. During substantive contacts with various Member States, at the twelfth session of the Conference of African Ministers of Industry in June 1995, at the meeting of Ministers of Industry of Latin American Countries in September 1995, and at the meeting of Ministers of Industry of the Asia and Pacific Region in the current month, and at the Eleventh Congress of Heads of State or Government of the Non-Aligned Movement, he had noted a reaffirmation of the conviction that the industrialization of developing countries was a vital necessity and must constitute a key element in the global development agenda, and that its role could not and must not be downplayed. Since the process of industrialization had become increasingly complex, there was a much greater need for specialized international

support for developing countries and economies in transition, and therefore for the continuance of UNIDO as a provider of such services.

6. The Global Forum on Industry held in the current month in New Delhi and organized by UNIDO in cooperation with the Government of India had considered key issues related to industrial development beyond the year 2000 in the light of the consequences of the Uruguay Round and the effect of other factors. It had been emphasized that industrialization in developing countries was a vital objective in the global development agenda. Global solutions were needed for global problems and major changes with respect to technological development, trade and investment would also require increased specialized international assistance.

7. The Forum had considered that assistance channelled through UNIDO should focus on enhancing private sector participation, competitiveness and industrial partnerships in an environment of growing interdependence. It had also stressed that UNIDO would have to conduct periodic assessments of industrial growth trends, develop appropriate benchmarks of industrial progress and promote and strengthen enterprise-level partnerships and strategic business alliances. It had expressed concern that UNIDO's resources were being reduced more and more at the very time that demand for its services was expected to increase rapidly. It had urged that additional funds must be mobilized and new mechanisms developed for attracting financial resources from the private sector and donor countries, and that business councils and other support groups should be created at the national and sectoral levels, representing a future natural constituency network and a source of advice and orientation for the Organization.

8. An advance version of his progress report on the implementation of UNIDO reforms requested by the Board would be made available to Member States later that day and the final version would be available in three weeks. The progress report reviewed the implementation of reforms and the achievements of the past two years. Those achievements included updating and clearly defining UNIDO's mission and value added within the United Nations system, defining a clear substantive focus for the core services of UNIDO, streamlining the organizational structure, introducing a clear set of basic management principles, rationalizing key managerial and administrative processes, making radical changes in project management in order to reduce costs and improve the quality and impact of projects, improving personnel policies and procedures and where appropriate

introducing new ones, strengthening internal reporting, and launching a process to improve the public image of the Organization.

9. The progress report demonstrated that UNIDO had completed most of the reforms that he had proposed and that Member States had endorsed at Yaoundé. In recent months, the reform process had accelerated with the help of an international consulting company and the committed work of a large group of staff members. The work to be done in early 1996 related to the specific formulation of a number of processes and procedures so that the last part of the reform could be implemented and the sustainability of the reform spirit ensured. UNIDO had thus set an example of reforms that could be achieved. The approval of the programme and budgets for 1996-1997 was essential in order to enable the Organization to fulfil its obligations and satisfy increasing demand from developing countries.

10. As requested by the Board at its June 1995 session, he had submitted preliminary expenditure plans based on the assumption of a \$28.8 million reduction in cash inflow for the 1996-1997 biennium, corresponding to the possible payment by UNIDO's main contributor of about half of its assessed contribution and entailing the suspension of 114 staff posts. As requested by Member States, prime attention had been devoted to the reduction of costs in administrative and other non-substantive programmes and the non-staff components of general operating costs. The expected results of the reform process would be fully realized within those plans.

11. He had also prepared an internal contingency plan reflecting non-payment of assessed contributions amounting to about \$52 million. The implications would include the further suspension of up to 119 posts.

12. Analysis of the expenditure plans, the contingency plan, UNIDO's organizational structure and other factors showed that UNIDO would continue to carry out its essential functions even with such stringent cuts. However, Member States must recognize the difficulties involved in such a potential drastic scaling down of resources at a time when the Organization had identified increasing demands from Member States in the light of its renewed vigour and new priorities. It was difficult to say which scenario was most realistic since information on payments by the major contributor might not be received before the sixth session of the General Conference.

13. The failure of some Member States to pay their assessed contributions could place UNIDO in financial jeopardy. Even if it were possible with the help of Member States to solve the crisis in 1995 caused by the

anticipated partial or non-payment of the major contributor, the threatened non-payment of contributions in 1996 and 1997 by the same Member State made it obvious that the Organization must be prepared to face long-term reductions in budgetary expenditure, with inevitable staff reductions.

14. In order to bring the Organization through the current crisis, he requested a renewed commitment by all Member States to the mission and role of UNIDO and its reform process, support in providing the legal basis for its work by approval of the programme and budgets for 1996-1997, the provision of extrabudgetary resources for the technical cooperation and field representation programmes, and approval of the use of unutilized balances from the 1992-1993 biennium for the establishment of a separation indemnity reserve to meet the extraordinary costs of reducing staff.

15. The reductions in support services would seriously restrict UNIDO's ability to carry out its programmes to the full. However, given time for adjustments, and with support for reforms, it could be done. He deplored any idea of a gradual reduction in UNIDO's ability to fulfil its mandate. He was committed to fulfilling his obligations to Member States and to his staff. UNIDO's staff was ready to face realities but demanded certainties.

16. **Mr. CARRIER** (President, UNIDO Staff Council) said that UNIDO's staff, management and "clients" in the developing countries all had different perceptions of the Organization and its purpose. Any organization needed a base and strength on which it could rely, vision and strategy, management and an organizational and coordination structure.

17. As UNIDO had no financial resources of its own, its only strength lay in its human resources, in the know-how, commitment, efficiency and creativity of its staff. However, as in any organization or institution, there were tendencies towards excessive bureaucracy, conflicting interests and different visions, which attacked the organization's "muscle" and destroyed its sense of purpose. That had perhaps been the case with UNIDO, and it was in that light that the staff perceived the value of the reform conducted by the Director-General.

18. In such a situation, certain essential responsibilities must be assumed. The Administration must redefine the basic missions of UNIDO with ambition, vision and even a certain pride, mindful of the Organization's essential primary, realistic and long-term purpose of serving the developing countries. It should also guarantee the integrity, efficiency and mobilization of its principal resource — the staff — through understanding

of its motivation, organization of its collective intelligence, recognition of merit and risks, career development and innovation. It must combat excessive bureaucracy, conservatism and self-interest groups, and organize training and retraining programmes for the upgrading of skills so as to contribute to the desired competitiveness of the Organization.

19. The staff should recognize the need for change and adaptation and make the necessary effort to "produce", since the success of the reform would depend above all on them. One or more managers or consultants could be changed but it was impossible to change the entire staff without irretrievably impairing the collective memory and know-how of the Organization and thus threatening its very existence.

20. Finally, it was for the Member States to provide the necessary resources, trust and moral and political support to ensure that efforts were rewarded. Every Member State was confronted with the same problems of institutional reform and knew the difficulties involved, which were certainly not less for international organizations.

21. Responsibilities were clear and inescapable. The future of the Organization would be ensured only if each of the three parties agreed to play its part. All three stood to gain by the exercise, the key to whose success lay in an unshakable belief in change, and the political will to institute change for the good of all.

22. Before commencing any staff reduction, the Administration should clearly state the targets, functions and structure of the reformed Organization. In a climate of uncertainty, the Staff Council felt justified in calling on the Administration to impose a freeze on all external recruitment, without exception, to refuse any extensions of contracts beyond the age of retirement, without exception, to redeploy existing staff for the performance of functions left vacant, and to establish a retraining programme suited to the needs created by redeployment.

23. He appealed to the Member States to give impartial support to the reforms and restructuring efforts, to pay arrears of contributions with minimum delay and to increase their contributions to UNIDO's technical assistance programmes and consultancy services.

24. **Mr. EL-FEKI** (Egypt), speaking on behalf of the African Group, said that the current meeting reflected the importance of UNIDO's role and the interest of Member States in maintaining its ability to continue its work despite the challenges to its financial resources. He was surprised at the announcement of non-payment

by the major contributor, which would constitute a severe setback to the entire system, but highly appreciated the continuous support of donor countries and urged all donors to maintain their political and financial commitment to the Organization. He reiterated his sincere appreciation to those Member States which had reaffirmed their support for UNIDO as expressed at Yaoundé. African countries would do their utmost to pay their assessed contributions on time despite economic and financial constraints.

25. The current financial uncertainty was particularly unfortunate at a time of major reforms and could seriously affect UNIDO's future as an important instrument for the industrialization of the developing countries. He strongly urged the Secretariat to continue the reform and restructuring process with a view to focusing the Organization's activities on Africa and the LDCs.

26. The expenditure plan submitted by the Director-General represented an acceptable framework for implementing the programme and budgets for 1996-1997. However, certain points needed to be stressed.

27. Since Africa, with 33 LDCs, was the continent that most urgently needed developmental assistance and could not afford any reduction in the scarce resources available, particularly for the Second IDDA, it should be given high priority in UNIDO programmes. However, paragraphs 9 (c) and 14 of document IDB.14/29 included some confusing references to the IDDA.

28. Owing to the merging of the IDDA organizational unit with one of the subprogrammes, it was difficult for the African Group to obtain accurate information on the possible reduction of resources for the Decade. Urgent action by the Director-General was needed in order to provide the unit with the necessary means for the effective implementation of its programme.

29. The underrepresentation of Africa on the Secretariat staff had long been a major concern of the Group and the situation had not been rectified. The African Group attached great importance to assuming an active and leading role in the Organization, particularly at the top management level, a matter that would continue to be of concern to the Group.

30. The expenditure plan presented by the Director-General provided an adequate basis for the work of the Organization during the first half of 1996, a crucial period for both the Member States and the Secretariat. Decisions with regard to additional plans should be considered in coming meetings if the need arose.

31. Part of the unutilized balances from 1992-1993, which it was proposed to set aside as a separation indemnity reserve, should be primarily used for financing substantive programmes in Africa.

32. He reiterated that the discussions and deliberations at the current meeting should not be interpreted as implicit acceptance of any Member State's intention to default on its legal and financial obligations towards an international institution such as UNIDO.

33. **Mr. EL HUSSEIN** (Sudan), speaking on behalf of the Group of 77, said that the Group had noted with concern the expected shortfall in UNIDO's financial resources stemming from the likely reduction in payment of its assessed contributions by one major contributor or even non-payment.

34. With regard to the proposed action required of the Board, the Group had circulated draft decision IDB.14/L.28, requesting the Director-General to implement the programme and budgets for 1996-1997 within cash resource availability and in accordance with the preliminary expenditure plans contained in document IDB.14/29. In the event of a significant change in the projected cash resource availability from the assumptions contained in the preliminary expenditure plans, the Director-General was requested to submit to the fifteenth regular session of the Board a new plan in line with the preliminary expenditure and contingency plans now before the Board and to report regularly on those matters to the policy-making organs.

35. The Group had no concrete proposals to make concerning the use of the unutilized balances from the biennium 1992-1993, but the component regional groups were addressing the issue on the basis of proposals formulated by their respective members.

36. On the question of staff reductions, the Chairmen of the Group's chapters had emphasized at their recent joint meeting in New York that appropriate measures should be taken to restructure UNIDO, with a view to ensuring effective participation of the members of the Group of 77, at the current critical time, in leading positions within the Secretariat in a manner that would ensure equitable representation and safeguard their growing interests and needs.

37. The ministerial declaration issued following that meeting had stressed the need to correct the negative impact of the reform process and to improve the participation of developing countries in decision-making within the governing bodies and the Secretariat.

38. **Mr. PRASAD** (India) said that UNIDO was passing through an extremely critical phase. Questions had been raised about the role and relevance, not only of the Organization, but also of industrialization. Industrialization was essential for achieving sustainable development, and the promotion of industry remained fundamental to economic and social development, employment generation and poverty elimination. That had been the basis for the creation of UNIDO. His delegation was convinced of the central and indispensable role played by UNIDO for industrial development and fully supported efforts to sustain and strengthen the Organization.

39. The major financial crisis facing UNIDO had been largely caused by the failure of Member States to honour their commitments, contrary to the sentiments expressed in the Yaoundé Declaration, by which Member States had agreed to accord full political and financial support to the Organization.

40. While his delegation appreciated the efforts of the Director-General and the Secretariat to deal with the situation in the best possible manner, his delegation was concerned to note from the preliminary expenditure plans that several substantive activities would have to be curtailed. It urged that core programmes such as technical cooperation, IDDA and programmes focusing on the LDCs should not be subjected to any further reductions. He hoped that UNIDO would emerge from the crisis with a stronger resolve to tackle the new challenges of industrialization in developing countries through partnership rather than antagonism.

41. **Mr. NOWAK** (Poland) said that Poland still regarded UNIDO as one of the organizations in the United Nations system which served real and pressing needs of Member States. Industrialization and international industrial cooperation were of paramount importance for the developing countries and economies in transition, and multilateral cooperation played a most important role. However, the Organization had to adapt its structures and procedures; his delegation looked forward to receiving concrete information on the results of the reform process, so that they could be appropriately assessed well before the sixth session of the General Conference.

42. The proposals contained in the preliminary expenditure plans and the report on the financial situation of UNIDO had been prepared in an atmosphere of uncertainty regarding income from assessed contributions for the current year and the biennium 1996-1997; his delegation fully appreciated the dilemma

faced by the Director-General in balancing the legalistic and realistic approaches to the financial future of the Organization.

43. It had been alarming to note that as many as half of the Member States had not paid their assessed contributions. His delegation fully agreed that every country, irrespective of its circumstances, had to fulfil its legal obligations and meet its financial commitments as long as it retained its membership of the Organization.

44. Poland agreed with the general thrust of the proposed changes and hoped that they would further contribute to a more precise focusing of UNIDO's services.

45. His delegation was ready to approve the programme and budgets for 1996-1997 as proposed by the Programme and Budget Committee, being convinced that the Director-General would take into account any developments in income from assessed contributions and adjust expenditure accordingly. It would be willing to discuss any realistic expenditure plan, but could not support any plan which provided for an increase in its assessed contribution, which it paid year by year, in full and on time.

46. **Mr. SOKOLOV** (Russian Federation) said that the situation facing the Organization as a result of uncertainty whether one major contributor would meet its constitutional financial obligations was aggravated by the fact that UNIDO would have to carry out the resultant reductions in programme activities and in the organizational and staff structure at the most crucial final stage of the radical reforms initiated by the overwhelming majority of Member States.

47. The Russian Federation would continue to support UNIDO as the central agency within the United Nations system responsible for promoting industrial development in the developing countries and economies in transition. Russia, whose economy was in a stage of transition, was directly interested in the survival of UNIDO. Though it was not entirely satisfied with the restructuring of UNIDO, it believed that the reform process agreed upon at Yaoundé should be continued.

48. The Russian Federation considered the preliminary expenditure plans submitted by the Secretariat to be well balanced and consistent with the reform process. It was ready to support the proposed measures concerning programme adjustments and staff reductions, particularly in the non-substantive divisions, and the

measures aimed at scaling down expenditure, although it was necessary to seek a reasonable balance in order not to undermine the functioning of the Organization.

49. In order not to protract indefinitely the critical situation caused by the absence of a budget, he could agree to the Secretariat's proposal and approve the budget for 1996-1997 in its present form but solely on condition that, should it prove necessary to implement the "zero" variant, special sessions of the Programme and Budget Committee and of the Board would be convened and an amended "zero" budget adopted. That might be stipulated in the decision taken at the current meeting. The "zero" variant was the most painful scenario in terms of both programme restructuring and stringent personnel cuts. However, from the preliminary evaluations of that scenario, as contained in the contingency plans, UNIDO's management appeared to be on the right track.

50. In the current critical situation, the Member States bore heightened financial responsibility. In the current year, the Russian Federation had already paid into the Organization's budget the sum of \$10 million, which exceeded its annual assessed contribution. His Government had also decided to make a further payment ahead of time of \$2 million. That would help to provide urgent financial assistance and demonstrated his country's political support for UNIDO's renewed mandate and confidence in its future. Despite its own unresolved economic difficulties, the Russian Federation intended to continue to pay its debt and expressed the hope that a similar attitude would be adopted by other Member States in arrears.

51. **Mr. BAJOWA** (Nigeria) regretted the uncertainty regarding the payment of assessed contributions by a major donor but noted with satisfaction the resolve of other Members of the Organization to ensure its continued survival. He welcomed the formulation of contingency plans to counter the negative effects of the financial difficulties facing UNIDO. Nigeria had initiated steps to settle its outstanding obligations and hoped that all countries with payment arrears would make similar efforts as a token of their commitment to the Organization.

52. He noted that the preliminary expenditure plans submitted by the Director-General provided for a reduction of \$28,840,000 in regular budget expenditure. He endorsed the principles on which that reduction had been based and, in that context, agreed that the overriding need was to minimize its impact on UNIDO's

substantive programmes, including those geared to the industrial needs of Africa and the LDCs.

53. The IDDA programme constituted an important litmus test of the Organization's commitment to the industrialization of the African continent. Nigeria was not unaware that serious analyses had been undertaken and would continue to be required in tailoring UNIDO's programmes to available resources. It was confident that the expenditure reductions encompassing overhead costs and programme rationalization would ensure that programmes of critical need remained intact.

54. His delegation endorsed the administrative measures proposed by the Director-General, particularly concerning staff reductions, and approved the plan to establish a separation indemnity reserve to mitigate the effects of staff terminations.

55. His delegation was prepared to endorse the suspension of financial regulation 4.2(b) and (c) so that the balance could be used to help overcome UNIDO's financial problems. He wished to propose that the total sum accruing be shared between the separation indemnity reserve and technical cooperation activities.

56. He wished to reaffirm his Government's support for the Organization and its belief in UNIDO's relevance to the industrialization of the developing countries, particularly in Africa. Nigeria would continue to resist any measures that might jeopardize the viability of the Organization.

57. Finally, he stated his delegation's support for the remarks made by the Chairman of the African Group.

58. **Mr. LORENZO Y LOZADA** (Observer for Uruguay), speaking on behalf of the Latin American and Caribbean Group (GRULAC), said that, at the start of the current session in June, GRULAC had expressed concern that some Member States were disregarding their commitment, made at Yaoundé, to renew their political and financial support for the Organization. It also deplored the indecisiveness of certain Member States with regard to the financial situation of UNIDO, which was hampering the reform process and the implementation of the decisions and resolutions of the fifth session of the General Conference.

59. At their regional meeting held in September 1995 at Montevideo, Uruguay, the Ministers of Industry of Latin America and the Caribbean had stressed the importance of industrialization in the economic and

social development of the countries of the region and the role that UNIDO had played and should continue to play in that process. They had recognized that the specialized areas of UNIDO's services, including investment promotion, transfer of technology, assistance to small and medium-sized enterprises, competitiveness and sustainable industrial development, were fully in line with the region's present needs and had expressed their disagreement with the questioning of UNIDO's role as the specialized agency responsible for industrial development within the United Nations system. All the countries of the region had undertaken to continue to support the strengthening of the Organization and the Secretariat's efforts to successfully complete the reform process initiated at Yaoundé.

60. It was regrettable that the situation which had arisen in June 1995 was still unresolved. That had prevented the adoption of the Organization's budgets for 1996-1997 and had affected the implementation of programmes and activities for the benefit of the developing countries. The adoption of a budget was essential for the operation of any organization, and GRULAC therefore appealed to Member States to make all necessary efforts to permit approval of the programme and budgets for 1996-1997.

61. While appreciating the Secretariat's endeavours in providing information on various scenarios allowing for different resource availability possibilities, GRULAC believed that no precedent should be created for non-fulfilment by States members of any organization of their international obligations. The information should rather be viewed as evidence that the Secretariat was prepared to deal with the consequences of shortfalls in expected income. As long as UNIDO's membership did not alter, the budget could not change.

62. GRULAC reiterated its support of conclusion 95/8 of the Programme and Budget Committee, and recommended that the Board approve the programme and budgets for 1996-1997 in accordance with that conclusion. It should be recalled that documents IDB.14/2 and Corr.1 respected the principle of zero real growth and provided for a budgetary allocation which accorded preference to substantive over administrative areas.

63. With regard to the unutilized balance from the biennium 1992-1993, GRULAC felt that, in view of the current difficult financial situation, financial regulation 4.2(b) and (c) should be suspended, as an exceptional measure, to give the Director-General the

necessary flexibility to proceed with the reforms and meet future needs as they arose.

64. **Mr. LI CHANGHE** (China) said that his delegation agreed in principle to the revised expenditure plan relating to the programme and budgets for the biennium 1996-1997. The current severe financial difficulties meant that there had to be a sharp cut in expenditure in 1996-1997. It was his delegation's understanding that efforts would be made to sustain the major technical cooperation activities as far as possible, while cutting administrative costs. His delegation supported that approach.

65. His delegation endorsed the Director-General's proposals regarding the use of the unutilized balances from 1992-1993 and his recommendations on the purpose for which they would be used.

66. It was the task of the resumed session to consider and adopt the expenditure plans and the programme and budgets for 1996-1997, as well as the use of the unutilized balances from 1992-1993, for submission to the General Conference. The Organization must adopt the programme and budgets in a timely manner and resolve the problem of contingency resources.

67. Approval of the expenditure plans for the 1996-1997 budgets did not imply acceptance of the late payment or non-payment of contributions by Member States. Member States should fulfil their obligations pursuant to the UNIDO Constitution and his delegation appealed to them to pay their contributions in a timely manner. With the support of the majority of Member States, the Organization would be able to overcome difficulties, continue to play a positive role and make new contributions to industrial development and economic and technical cooperation.

68. **Ms. LAJOUS** (Mexico), referring to the recent United Nations Fiftieth Anniversary celebrations, which had been marked by an appeal for more coordination and less bureaucratization in some specialized agencies, said that her delegation had called for the recognition of the value of those agencies, such as UNIDO, that fulfilled very useful functions.

69. Her delegation endorsed the remarks made by the observer for Uruguay on behalf of the GRULAC countries and reiterated the need to acknowledge the importance of UNIDO's role in the development of developing countries, as stressed by the meeting of Ministers of Industry of the Latin American region in September 1995. There were new opportunities and challenges for developing countries world-wide and

UNIDO possessed the specialized services to help those countries to compete by means of growing technological and institutional support and greater specialization in industrial support services.

70. Mexico appealed to the international community to strengthen the United Nations system, as the main forum for dialogue and cooperation in a context of respect for international law. With a spirit of constructive dialogue, the Board could successfully conclude its work. Her delegation supported the approval of the programme and budgets for the biennium 1996-1997 in accordance with conclusion 95/8 of the Programme and Budget Committee.

71. The Mexican delegation was gratified by the action already taken to reform and revitalize UNIDO, but the process could succeed only if Member States fulfilled their financial obligations. Her delegation called on all Member States to honour their commitments, in full and on time. She announced that Mexico's arrears currently amounted to less than 7 per cent of its assessed contribution for 1995 and said that full payment would be made during November. It was a matter of concern that, as at 30 September 1995, the cumulative total of contributions outstanding exceeded \$88 million and that only 87 Member States had paid their contributions, fully or in part, during 1995. Her delegation had noted with interest the Director-General's proposal to set up an open-ended working group to deal with the question of late payments.

72. It was also urgent and necessary that those Member States which could do so should make voluntary contributions.

73. In view of the current financial difficulties, her delegation fully supported the suspension of financial regulation 4.2(b) and (c) to permit the use of the unutilized balances for the biennium 1992-1993 and noted the Director-General's intention to establish a separation indemnity reserve.

74. **Mr. AKAO** (Japan) said that one of the main reasons for the meeting was that, though some unofficial information had been received since the June 1995 meeting, the status of payment by a major contributor remained unclear. The Board was obliged to discuss the programme and budgets for 1996-1997 and the expenditure plan on the basis of the information currently available. If there were any new developments, such as an official announcement of withdrawal, which would significantly affect UNIDO's programme and budgets, his delegation considered that it would be necessary, among other things, to reconvene the policy-making organs.

75. He noted, with regret, that only 52 of the 169 Member States had paid their assessed contribution in full, as at the end of September 1995, and that the accumulated unpaid contributions totalled \$88 million. It was inexcusable that as many as 82 Member States had not paid any part of their assessed contributions. If Member States sincerely attached great importance to UNIDO's activities, as declared at regional meetings of Ministers of Industry and elsewhere, such support would be clearly matched by full payment of assessed contributions. Asking for reform and fulfilling financial obligations were two sides of the same coin, and Member States that were significantly in arrears were not in the best position to demand reform.

76. His delegation urged all Member States to fulfil their obligations as soon as possible and felt it essential to consider measures to accelerate payments. For example, receipt of UNIDO services could be made contingent on the fulfilment of a Member State's financial obligation.

77. In view of its leading role in the United Nations system, the failure of a major contributor to meet its financial and legal obligations could harm the relationship of mutual trust within the international community. He hoped that the contributor in question would agree to fulfil its obligation as soon as possible and continue its membership of UNIDO.

78. The absence of official information concerning payment by that contributor caused uncertainty that called into question the plausibility of the preliminary expenditure plans under consideration.

79. In document IDB.14/29 it was proposed that the expenditures be reduced by \$28.8 million, to offset the expected shortfall in cash resources, by decreasing costs in administrative and non-substantive programmes and non-staff costs, by enforcing economic measures and by full implementation of organizational reform. His Government intended to keep a close watch on the cost-reduction process.

80. The proposal to merge country strategy and programme development activities with the mobilization and management of financial resources could affect both the relationship with donors and funds mobilization. There had been a significant decrease in convertible contributions to the Industrial Development Fund since 1992 and a slight increase in contributions to the Trust Fund. When Member States were finding it increasingly difficult to allocate resources to UNIDO, IDF's traditional fund-raising activities could not continue to

be successful and should be reviewed. As an alternative, UNIDO should provide more service-oriented activities in order to meet the needs of donor and recipient Member States. The Government Funds Unit should therefore step up its efforts to coordinate and prioritize programmes and projects, in consultation and in closer communication with Member States. The Unit played an important role and should have adequate staff and resources. His delegation believed that the proposal for a "small focal point" in Programme 320 should be reconsidered.

81. In staff reduction, primary consideration for the retention of staff should be given to those Member States that had fulfilled their financial obligations to the Organization. Japan was one of those States and was seriously underrepresented on the Secretariat. His Government would find it extremely difficult to accept the loss of any Japanese staff members resulting from the expected non-payment or delayed payment of contributions by other Member States.

82. He expressed appreciation at some of the positive results that had been achieved in the ongoing reform process but believed that UNIDO's activities in all substantive divisions without exception should be more focused and prioritized. Japan would closely monitor the reform process and make its position on reform clear at the General Conference, after careful study of the final report.

83. The need to establish a separation indemnity reserve, as proposed by the Director-General in IDB.14/30, stemmed from the non-payment of assessed contributions. His Government had stated in the past and continued to be of the opinion that UNIDO should not repeatedly suspend financial regulations in order to employ an unutilized balance for other purposes. In principle, such funds should be reimbursed to the Member States that had paid their assessed contribution in full. However, his delegation recognized that large staff reductions were unavoidable and that the separation indemnity reserve therefore deserved consideration. It reluctantly accepted the use of the unutilized balance for that reserve, but only within the available cash resources. The volume of the reserve should be considered at the sixth session of the General Conference and the reserve should be used only for separation indemnities. His delegation would welcome more detailed information, including a breakdown of the posts to be eliminated in both the Professional and General Service categories, stating the amount of the reserve required for each.

ESTABLISHMENT OF AN INFORMAL, OPEN-ENDED CONSULTATION GROUP

84. The **PRESIDENT** noted that two draft decisions, contained in documents IDB.14/L.27 and IDB.14/L.28 were before the Board. She suggested that an informal,

open-ended consultation group under the chairmanship of Mr. Al-Ghais (Kuwait) be set up to consider the possible preparation of a single agreed version.

85. *It was so agreed.*

The meeting rose at 1.10 p.m.